

**THE EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON THE
FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN
MUKONO MUNICIPALITY**

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**UGANDA CHRISTIAN
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DECLARATION

I Agaba Immaculate Nabasa hereby declare that this research report has been produced out of my own effort with the guidance of my supervisor and has never been submitted to any other institution for any award.

Signature..........

Date.....22...../.....08...../.....2025.....

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APPROVAL

This research report has been supervised and approved by me and is therefore ready for submission to the School of Business in Uganda Christian University.

Signature.....

Date.....22/08/2025.....

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DEDICATION

With special regards, I wish to dedicate my research work to my parents Mr. Byarugaba Ross Africanus and Mrs. Nabaggala Christine Byarugaba who have always been there to support me in my education. May the Almighty God richly bless you and give you all your heart desires.

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May God bless you all abundantly.

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ABSTRACT

The purpose of the study was to examine the Effect of Financial Management Practices on the Financial Performance of Small and Medium Enterprises (SMEs) in Mukono Municipality. Particularly, it took into account the research on the relationship between budgeting practices and the financial performances of SMEs, establishing working capital management as a determinant of financial performance of SMEs, and ascertaining the relationship between financial record keeping and the financial performance of SMEs in Mukono Municipality.

Furthermore, the study was conducted using a cross-sectional survey research design where quantitative research approach was also employed. A sample size of 80 SMEs operating in Kauga, Mukono Municipality was selected using simple random sampling method. Data was collected using questionnaires and later analyzed using SPSS. All the ethical considerations while collecting data were fully considered by the researcher.

The study findings established that budgeting practices ($r = .875^{**}$, $p < .05$), working capital management ($r = .883^{**}$, $p < .05$), and financial record keeping ($r = .879^{**}$, $p < .05$) each have a strong positive and significant influence on the financial performance of SMEs in Mukono Municipality, with effective budgeting improving planning, decision-making, and resource optimization, proper working capital management ensuring liquidity, efficiency, and supplier relations, and accurate financial records enhancing accountability, decision-making, and access to credit.

Finally, the study recommended that SMEs in Mukono Municipality prioritize effective budgeting, efficient working capital management, and accurate financial record keeping, supported by staff training and the adoption of technological financial management tools, to enhance planning, liquidity, accountability, decision-making, and overall financial performance, thereby promoting growth, sustainability, and competitiveness.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The study was about The Effect of Financial Management Practices on the Financial Performance of Small and Medium Enterprises (SMEs) in Mukono Municipality. This chapter comprises the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, scope of the study, significance of the study and conceptual framework.

1.1 Background of the Study

Small and Medium-sized Enterprises (SMEs) have been recognized around the world as important drivers of economic growth, employment, and innovation in developed and emerging economies (Zayed et al., 2022). Financial management methods such as budgeting, working capital management, accounting, and investment planning provide the basis for the construction of the financial performance and sustainability of SMEs (Nkwinika & Akinola, 2023). Effective financial management enables firms to utilize their resources optimally, manage their cash flows, and invest appropriately, thus enhancing profitability and competitiveness (Okeke et al., 2024). Poor financial management is one of the primary causes of SME failure globally because it prevents companies from harnessing their potential in responding to market variability and financial adversity (Zhang et al., 2022).

In the wake of today's competitive business environment, SMEs are faced with increasing forces of globalization, technological upheaval, and shifting consumer attitudes to be navigated through effective financial management (Yakob et al., 2021). Having access to capital, in addition to good financial literacy, enables SMEs to stay resilient to these forces and continue growing (Oppong et al., 2023). Evidence shows that those SMEs with strategic budgeting, cost control, and performance measurement have a greater survival rate compared to their peers (Tharmini & Lakshan, 2021). But firms with tight accounting procedures, weak cash flow management, and weak debt management will suffer from liquidity problems and ultimately go out of business

(Mang'ana et al., 2023). This indicates the importance of financial management practices as an external driver of SME performance in all industries.

On the international front, the significance of SMEs to financial management has been showcased in the United States, where effective cash flow and cost management strategies have enabled many SMEs to remain resilient during times of recessions (Al-Hashimy et al., 2022). In Europe, in Germany, the Netherlands, and the UK, the SMEs with advanced financial planning practices that are favored by close relationships with banks and other financial institutions are better managed (Rosyidiana & Narsa, 2024). Similarly, in the Asian continent, Japan, Malaysia, and South Korea, SMEs that employed electronic financial systems, strategic asset management, and correct accounting have demonstrated improved operational effectiveness and market competitiveness (Zada et al., 2021). The above illustrations illustrate the need for sound financial management practice to assist SME survivability in diverse economic climates.

In Africa, SMEs are strong drivers of GDP and jobs but yet experience high mortality due to weak money management and poor access to credit (Basiru et al., 2023). In South Africa, weak budget and accounting processes have been SME survivability constraining factors (Msomi & Olarewaju, 2021). In Nigeria, Kenya, and Tanzania, studies show that SMEs adopting formal financial planning, like debt management and cash flow forecasts, are more profitable and have higher growth rates (Gyamera et al., 2023). Sub-Saharan African agriculture and manufacturing SMEs are most vulnerable to financial and market risks, and therefore appropriate management of finances is central to their survival (Kataike et al., 2024). This sheds light on the region's urgent capacity development and financial literacy intervention requirements by SME owners and managers.

SMEs are the backbone of the economy in Uganda, with over 80% of the private sector employees in the country, yet most of them disintegrate within the first five years due to effective financial management practices (Ainembabazi, 2022). Research in Bushenyi, Mbarara, and Kampala reveals that well-established budgeting, financial recordkeeping, and debt management strategies by SMEs improve performance and growth of their businesses (Sunday et al., 2022). However, in Mukono Municipality, the majority of SMEs encounter poor financial literacy, ineffective deployment of capital, and imbalanced handling of cash flow, reducing their profitability and long-term sustainability (Wabwire, 2022). It was therefore critical to learn about

the effect of financial management practice on the financial performance of SMEs in Mukono Municipality to inform interventions that would help improve their competitiveness and survival (Tayebwa et al., 2025).

1.2 Problem Statement

Ideally, SMEs in Mukono Municipality should maintain strong financial performance through effective financial management practices, reflected in high financial performance levels (Ainembabazi, 2022). However, the actual scenario reflects a significant underperformance in these areas, with many SMEs recording declining profits, inadequate liquidity, rising operational costs, and stagnating sales (Wabwire, 2022). Recent reports by USSIA (2024) indicate that over 60% of SMEs in Mukono Municipality have experienced a downward trend in net profit margins over the past three years, while 55% report difficulties in maintaining liquidity levels sufficient for day-to-day operations. Furthermore, 58% of SMEs face high cost inefficiencies, and 52% report declining sales growth due to poor financial planning and ineffective resource management (Sunday et al., 2022). If unaddressed, SMEs risk closure, job losses, and reduced local economic growth. Despite interventions from the Uganda Small Scale Industries Association, local government offices, and financial institutions, the challenge of poor financial performance among SMEs has persisted (Tayebwa et al., 2025).

Furthermore, previous studies by scholars like Gyamera et al. (2023) and Oppong et al. (2023) have examined financial management practices and SME performance, focusing on general financial literacy and access to finance. However, limited research has specifically explored how budgeting practices, working capital management, and financial record keeping affect the financial performance of SMEs in least developed countries like Uganda and in particular, areas like Mukono Municipality. This gap therefore necessitated the need to conduct a study examining the effect of financial management practices on the financial performance of small and medium enterprises (SMEs) in Mukono Municipality

1.3 Purpose of the Study

The purpose of this study was to examine the effect of financial management practices on the financial performance of small and medium enterprises (SMEs) in Mukono Municipality.

1.4 Objectives of the Study

- i. To examine the relationship between budgeting practices and financial performance of SMEs in Mukono Municipality.
- ii. To establish the relationship between working capital management and financial performance of SMEs in Mukono Municipality.
- iii. To explore the relationship between financial record keeping and financial performance of SMEs in Mukono Municipality.

1.5 Research Questions

- i. What is the relationship between budgeting practices and financial performance of SMEs in Mukono Municipality?
- ii. What is the relationship between working capital management and financial performance of SMEs in Mukono Municipality?
- iii. What is the relationship between financial record keeping and financial performance of SMEs in Mukono Municipality?

1.6 Scope of the Study

1.6.1 Content scope

The study was specifically limited to; examining the relationship between budgeting practices and financial performance of SMEs, establishing the relationship between working capital management and financial performance of SMEs, and exploring the relationship between financial record keeping and financial performance of SMEs in Mukono Municipality.

1.6.2 Time scope

The review of reports and documents covered a period of five years, from 2020 to 2024. This timeframe allowed for a comprehensive analysis of recent trends and patterns in financial management practices and their influence on the financial performance of SMEs in Mukono Municipality.

1.6.3 Geographical scope

This study was carried out in Mukono Municipality, Mukono District, Central Uganda. Mukono Municipality was selected because SMEs in this area have experienced notable challenges in financial performance, particularly in areas such as profitability levels, liquidity levels, cost efficiency, and sales growth.

1.7 Justification of the Study

The justification behind this study arose from the need to investigate the way financial management practices influence the financial performance of SMEs in Mukono Municipality based on the persistent experience of woes in profitability, liquidity, cost efficiency, and sales growth despite ongoing interventions by stakeholders. While previous studies by scholars like Gyamera et al. (2023) and Kataike et al. (2024) have been conducted on general financial literacy and access to finance, no studies have specifically addressed the influence of budgeting practices, working capital management, and financial record keeping on the financial performance of SMEs in Mukono. This study therefore filled this gap by presenting context-based evidence to guide SME owners, policymakers, and financial institutions on how to develop improved financial management strategies, resulting in better business performance.

1.8 Significance of the Study

The findings of the research will be beneficial to SME owners and managers by highlighting efficient financial management techniques, such as record keeping, working capital management, and budgeting, which can have a maximum impact on profitability, liquidity, cost reduction, and sales growth within their organizations.

The study will be significant to financial institutions since it will inform them about the challenges of financial management of SMEs in Mukono Municipality, to enable them develop better loan products, credit facilities, and advisory services for SME development and sustainability.

The study will be significant to policymakers and local government leaders by providing evidence-informed recommendations on interventions, capacity-building programs, and

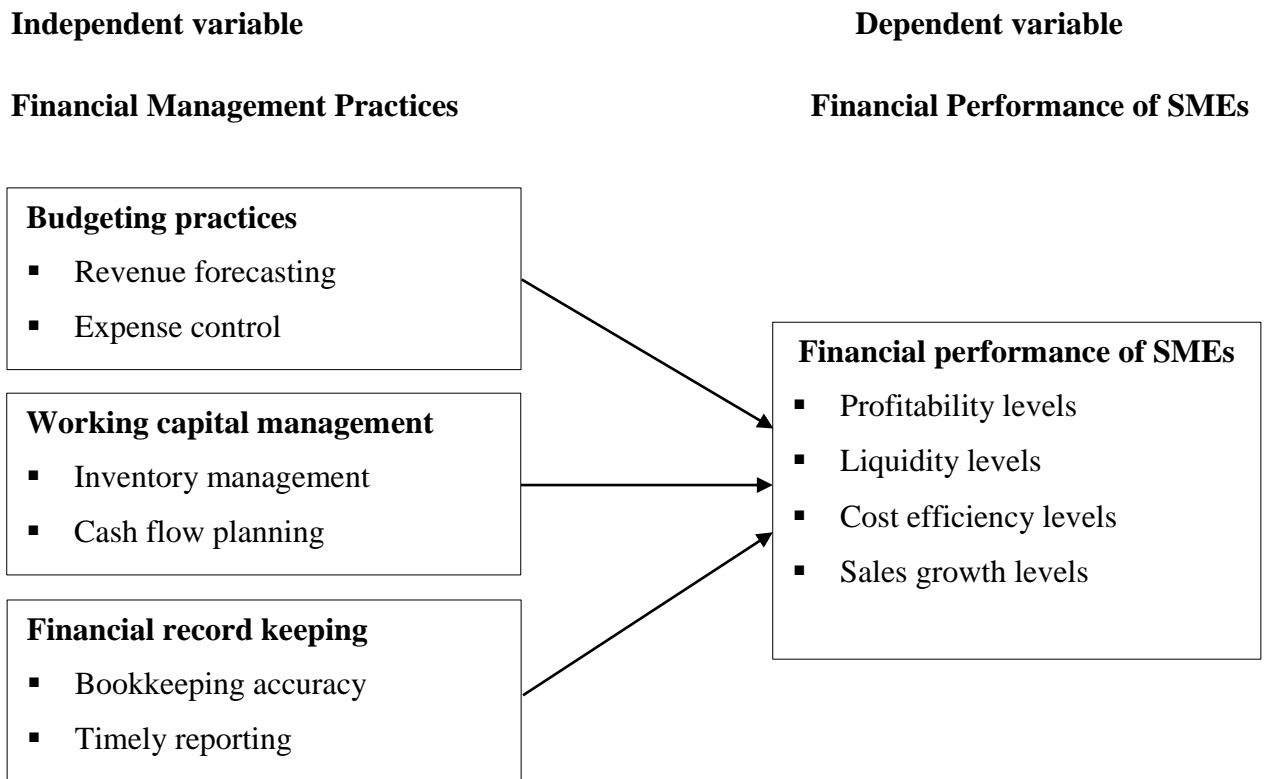
regulations required to improve the financial performance and economic contribution of SMEs in Mukono Municipality.

The study will be significant to researchers and prospective researchers by filling the research gap on the given relationship between financial management practices and SME financial performance in Mukono Municipality, offering room for further studies in similar contexts in Uganda and other developing economies.

The study will be critical to development partners and NGOs involved in the development of SMEs by pinpointing priority areas of financial management that require support so that they can design concentrated training, mentoring, and funding initiatives that improve SME sustainability and effectiveness.

1.9 Conceptual Framework

Figure 1: Conceptual Framework



Source: Adopted from, Tharmini & Lakshan (2021) and modified by the researcher (2025)

Conceptual framework of this study examines the impact of financial management practices on the financial performance of SMEs in Mukono Municipality. Financial management practices, as the independent variable, are measured through financial management practices (expense control and revenue forecasting), management of working capital (cash flow planning and inventory management), and maintaining financial records (accuracy of bookkeeping and timely reporting). The dependent factor, profitability, is quantified based on profitability levels, liquidity levels, cost efficiency levels, and sales growth levels. Based on the paradigm, prudent financial management practices enable SMEs to budget and manage resources efficiently, maintain adequate liquidity, and optimize operating expenses, leading to enhanced profitability, enhanced cash flow, increased cost efficiency, and increased sales growth. Hence, there exists an uncomplicated positive relationship where sound financial management practices are meant to improve the SMEs' financial performance.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter provides an analysis of relevant literature by several scholars as well as what other researchers have to say about the effect of financial management practices on the financial performance of small and medium enterprises (SMEs). Finding out what has been done and what has been omitted in this field of study is the main goal of this literature. Therefore, sources like newspaper articles, journals, encyclopedia and books related to the study were used.

2.1 Conceptual Review

2.1.1 Financial management practices

Financial management practices are variously defined in the literature, with some scholars emphasizing narrow, technical activities such as budgeting, bookkeeping, and cash-flow management as the core components of financial management (Zayed et al., 2022). Others perceive a broader, strategic outlook and include financial planning, asset-liability management, strategic budgeting, and behavioral attitudes towards finance in the managerial routines of firms (Al-Hashimy et al., 2022). A third strand stresses human and system ability financial literacy, managerial ability and information technology arguing that practices are only meaningful if managers possess the ability and systems to apply them (Gyamera et al., 2023).

Empirical data captures financial management practice through recurring dimensions: budgeting practices (revenue forecasting and expense control), working-capital management (cash-flow planning and stock control), and financial record-keeping (accuracy in bookkeeping and timely reports), which together capture both planning and operating controls (Tharmini & Lakshan, 2021). The remaining researchers extend these dimensions to include strategic revenue management and forecasting, asset-liability ratio management, and management accounting services in order to account for longer-term financial stability and decision support (Okeke et al., 2024). Industry-specific research, for example in forestry and agricultural SMEs, points to bespoke measures like season cash-flow planning and input inventory practices illustrating context dictates what dimensions researchers highlight (Mang'ana et al., 2023).

Methodologically, researchers use a mix of quantitative financial ratios and qualitative assessments to operationalize financial management practices on the argument that ratios (e.g., current ratio, inventory turnover) capture outcomes whereas practice questionnaires capture managerial action (Gyamera et al., 2023). Various studies determine that combining self-reported practice scales with objective measures of firm performance yields more insightful views of how some practices affect profitability, liquidity and efficiency (Rosyidiana & Narsa, 2024). Finally, current studies in Uganda and similar settings highlight the mediating roles played by access to finance and financial literacy, with findings indicating that availability of practices is not in itself an impetus for performance enhancement unless supported by capacity and external assistance (Ainembabazi, 2022).

2.1.2 Financial performance of SMEs

Financial performance of SMEs is usually defined as the extent to which a small or medium-sized business succeeds in accomplishing its financial goals profitability, liquidity, growth and efficient use of resources but scholars debate whether or not to measure it solely by short-term financial performance or wider, longer-term indicators of sustainability and resilience (Zada et al., 2021). Others promote a limited, accounting-oriented view in which objective ratios (profit margins, return on assets, current ratio) are the key performance measures (Zhang et al., 2022). Others propose that the view is not sufficient in the context of SMEs since managerial skill, household-firm relations and informal finance complexity affect outcomes, and therefore perceptual and composite measures (owner satisfaction, survival, sales growth) need to accompany ratio analysis (Oppong et al., 2023). The argument thus places financial performance as either a set of plain vanilla financial ratios or as one that is holistically measured and includes both quantitative results and qualitative business resilience.

Empirical studies typically quantify SME financial performance on a minimal number of central dimensions profitability, liquidity, growth and cost efficiency that capture both outcome and capacity aspects of firm finances (Sunday et al., 2022). Developing-country studies add further depth by considering sales growth or turnover and survival as distinct dimensions alongside ratios like net profit margin and current ratio, as high turnover or survival can be evidence of successful adaptation in the face of low margins (Msomi & Olarewaju, 2021). Other authors pin point cost efficiency and asset utilization as being key measures when capital constraints are at

stake, arguing that low costs of operation and high asset turnover are likely to portend longer term survival for SMEs (Wabwire, 2022). Taken together, these research studies point towards consensus over a multi-dimensional measurement approach combining conventional financial ratios with measures of growth and efficiency.

Methodologically, the researchers combine objective accounting ratios (e.g., net profit margin, return on assets, current/quick ratios) with perceptual Likert-scale items (owner perceptions of liquidity pressure, perceived sales trends) to obtain access to both quantitative and qualitative measures of performance (Tayebwa et al., 2025). Context-specific work particularly in smallholder and agricultural settings proposes adding sector-specific variables such as agricultural farm production conversion rates and seasonal revenue volatility to improve explanatory power (Kataike et al., 2024). The SME research message is clear: solid assessment of financial performance requires the combination of traditional financial measures with growth, cost-effectiveness and context-measures to accurately portray SME realities and guide effective interventions (Zada et al., 2021).

2.2 Empirical Review of the Study Objectives

2.2.1 Relationship between budgeting practices and financial performance of SMEs

Zada et al. (2021) in their study also examined the impact of financial management practices, including budgeting, on small-to-medium size forest business growth in Pakistan and found that businesses with systematic budgeting systems were more profitable and improved resource usage. The study highlighted that systematic budgeting enables SMEs to schedule their expenditures, project cash flow shortfalls, and focus on investment opportunities. Yakob et al. (2021) also carried out another research which tested the impact of financial literacy and management, like budgeting exercise, on SME performance and concluded that firms adhering to stringent budgeting practices achieved significant increases in sales growth and operational efficiency. However, both works did not study in depth the contextual problems that hold back SMEs from embracing budgeting practices, for instance, limited managerial capacity and market volatility.

Nkwinika and Akinola (2023) viewed Nigerian SMEs and examined how the budgeting process influenced financial performance and reported positive connections between

participatory budgeting and cost-effectiveness because owners and managers could identify wasteful expenses. Similarly, Okeke et al. (2024) viewed strategic budgeting and revenue management in SMEs and reported that companies with tight budget forecasts and variance analysis had higher financial solidity and lower liquidity risks. However, quantitative data were mainly applied in both studies, thus restricting knowledge regarding behavioral and cultural influences on budgeting effectiveness.

Basiru et al. (2023) elaborated on financial management strategies in emerging economies, and budgeting practices were referred to as a major driver for the performance of SMEs, especially during volatile economies where careful spending planning reduces the risks of insolvency. At the same time, Msomi and Olarewaju (2021) elaborated on financial sustainability of SMEs in South Africa, whereby firms with strict budgeting practices maintained better liquidity levels and were more resilient to shocks. In view of these observations, however, the research did not adequately take into account sectoral variation in budgeting use, which could affect generalizability across different SME environments.

Tayebwa et al. (2025) analyzed financial management capacity in Mbarara City, Uganda, and found that SMEs that practiced regular budget planning and review experienced better profitability and management control. Similarly, Kataike et al. (2024) contrasted dairy companies in Uganda and demonstrated that budgeting with formalism contributed to greater cost effectiveness and resource utilization, particularly when managers supplemented budgets with controls of oversight. The two studies did not, nonetheless, comprehensively examine the matters related to human resource capacity and technology support for effective budgeting in SMEs.

Sunday et al. (2022) assessed strategic budgeting practices in Western Uganda and reported that SMEs with more sophisticated budgeting processes had higher liquidity and sales increases, confirming budgeting as significant to performance. Meanwhile, Wabwire (2022) targeted SMEs in Kampala's Kasubi Business Centre and reported that those companies with budgeting systems that were formal had higher profitability levels and controlled expenditures better. Although the two studies offer robust evidence supporting the positive association between budgeting and financial performance, they show a gap in research about the

longitudinal effect of budgeting practices and how local socio-economic characteristics mediate such an association within heterogeneous SME contexts.

2.2.2 Relationship between working capital management and financial performance of SMEs

Tharmini and Lakshan (2021) in their study examined the impact of working capital management on the performance of small and medium enterprises (SMEs) based on the legitimacy theory, which concluded that SMEs with efficient inventory, receivable, and payable management have more rates of profitability and liquidity. The study highlighted that shorter cash conversion cycles speed up the operation efficiency and reduce the cost of financing, hence imparting a positive influence to financial performance. Another study by Mang'ana et al. (2023) focused on Tanzanian agricultural SMEs and found that effective working capital management, particularly cash flow planning and receivable management, significantly improved sales turnover while reducing insolvency risks. However, both of the studies failed to scrutinize the impact of firm size and sectoral differences as intervening variables between working capital management and performance.

Zayed et al. (2022) also studied determinants of financial management of UAE SMEs and confirmed that firms with structured current asset and liability management demonstrated better profitability ratios and fewer operational setbacks. Similarly, Al-Hashimy et al. (2022) also studied behavioral determinants of working capital management and suggested that SMEs with timely monitoring of cash flow, inventory, and receivables trends are capable of making good investment and financing decisions and enhancing overall financial performance. Despite these findings, the two studies paid little attention to the external macroeconomic conditions, such as inflation and market volatility, that affect the effectiveness of working capital practice.

Rosyidiana and Narsa (2024) had researched SMEs in the stage of economic post-pandemic recovery and found that firms that optimized their working capital components, i.e., reducing receivables collection period and optimizing inventory, possessed better liquidity and profitability. Likewise, Oppong et al. (2023) surveyed the financial conduct of workers in the private sector and their connection to enterprise performance and established that SMEs possessing regulated working capital control had higher revenue growth and reduced financial

pressures. Nevertheless, neither of the abovementioned studies discussed the challenges SMEs face when implementing technology-based tools to manage working capital.

Zhang et al. (2022) explored asset-liability ratio management in SMEs using dynamic nonlinear models, highlighting that efficient-working capital management can level out the financial situations of businesses even during turbulent market conditions. Likewise, Msomi and Olarewaju (2021) also explored the financial sustainability of SMEs in South Africa and established that firms that maintain optimal cash, receivables, and inventories levels enjoyed improved solvency and profitability ratios. The two studies, however, failed to research the human capital ability and management competencies it requires to ensure effective working capital practice.

Gyamera et al. (2023) analyzed the moderating role of information technology on management accounting services, i.e., working capital management, and found that SMEs utilizing IT to manage cash and inventory experienced enhanced financial performance and operational effectiveness. Meanwhile, Basiru et al. (2023) researched emerging market SMEs and found that planning and control of working capital significantly reduced financial risks and helped in firm stability. Nonetheless, a research gap remains regarding long-term sustainability of SMEs' working capital management practices operating in low-resource and highly uncertain markets, particularly in Sub-Saharan Africa.

2.2.3 Relationship between financial record keeping and financial performance of SMEs

Zayed et al. (2022) examined the function of book-keeping in enhancing the financial performance of SMEs, pointing out that timely and accurate financial recording makes it possible for managers to make effective investment decisions as well as operational activities. The study established that SMEs with complete ledgers and electronic books experienced improved profitability, cash flow management, and accountability. Another study conducted by Al-Hashimy et al. (2022) weighed the strategic and behavioral effects of record-keeping in finance, quoting that firms with systematic recording are likely to plan the budget, forecast revenues, and monitor expenditures, thus facilitating the company to perform financially better. Both studies did not give due consideration to how SMEs with less technological resource accessibility or lower managerial ability can maintain good record-keeping.

Zhang et al. (2022) explored the asset-liability management of SMEs and stressed the significance of utilizing credible financial records to track liabilities, receivables, and cash flows, which in turn influence profitability and liquidity. Similarly, Msomi and Olarewaju (2021) authored on the financial sustainability of small and medium enterprises in South Africa and found that effective day-to-day recording of purchases, sales, and transactions has a positive correlation with better solvency, fewer operating differences, and improved strategic decision-making. The above-stated studies, however, did not to a large extent consider the consequences of human capital shortages on recurring financial bookkeeping.

Gyamera et al. (2023) analyzed the role of information technology as a moderator of management accounting services and revealed how small and medium-sized businesses employing IT-based financial record systems had attained better financial performance in terms of accuracy, reporting, and compliance. Furthermore, Basiru et al. (2023) researched emerging market SMEs and found that firms with systematized records of bookkeeping exhibited reduced risk exposure, enhanced stakeholder confidence, and higher profitability compared to firms that employed informal or unreliable record-keeping mechanisms. Both studies failed to comprehensively provide answers to the problems faced by SMEs in resource-poor settings when they implement technology-based record-keeping systems.

Nkwinika and Akinola (2023) assessed SME financial management challenges and best practices and determined that well-maintained and consistent financial records allow managers to identify opportunities to save costs, track asset utilization, and enhance performance measurement. Similarly, Okeke et al. (2024) emphasized that strategic financial recording allows accurate forecasting, assists in maintaining compliance with tax obligations, and assists in ensuring overall financial stability, and thus contributes directly towards sustaining long-term growth in SMEs. However, both studies did not examine the role of training and financial literacy as factors to improve the effectiveness of record-keeping practices among SMEs.

Rosydiana and Narsa (2024) conducted a survey of SMEs during the post-pandemic recovery and discovered that companies with systematic digitalized financial records were more financially resilient, recovered at a quicker pace, and had better investor confidence. Likewise, in the same setting, Oppong et al. (2023) documented that financially well-recorded SMEs could effectively monitor investment performance, manage risks, and enhance decision-making

capability, which contributed towards better revenue growth and sustainability. Despite these discoveries, both studies had not fully addressed the organizational and cultural resistances that may impede normal adoption of record-keeping practices among SMEs operating in developing economies.

2.3 Research/ Literature Gap

The empirical synthesis indicates some knowledge gaps in studies of SME performance and financial management practice. While the evidence consistently presents evidence of positive relationships between working capital management, budgeting, and financial record-keeping with profitability, liquidity, and viability, little is known about how situational factors such as sectoral diversity, human capital capability, access to technology, and socio-economic environments moderate such relationships. In addition, most studies apply quantitative or cross-sectional approaches with few insights into behavioral, cultural, and longitudinal effects of financial practice on SME performance. Furthermore, problems with the take-up of technology-based accounting and budgeting, and the role of financial literacy and training in improving better practice, are all poorly understood. These lacunae suggested a need for research bringing contextual, human, and technological factors together to further explain and improve SME financial management performance in the context of developing economies.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the methodology that was used in conducting the research. It described how this study was conducted. It includes the study design, the study setting, sources of data, study population and sample size determination. It describes sampling procedures, study variables, data collection instrument and methods, validity and reliability of data collection instruments, data processing, quality control measures, data analysis, ethical considerations, and study limitations.

3.1 Research Design

This study employed a cross-sectional survey research design, under which data are collected from the respondents once at one point in time without any additional follow-up (Hunziker & Blankenagel, 2024). It was appropriate since it enables the researcher to efficiently scrutinize the influence of financial management practice on the financial performance of SMEs in Mukono Municipality with consideration of time and budget limitations. It allows recording of extant practices, trends, and attitudes regarding financial management practices and their effect on SMEs' financial performance at the point of data collection. Through this approach, the study captured a snapshot of what is being practiced at the moment for financial management practices and how directly they relate to SMEs' financial outcomes in the region (Maier et al., 2023).

The study employed the quantitative research approach to measure the relationship between SME financial performance and financial management practices in numerical values. Systematic data were gathered with the use of structured questionnaires, which were then analyzed using statistical methods such as correlation and regression analysis (Hodge, 2020). This was a suitable method because it enables proper measurement of financial management variables and performance outcomes, such that testing the hypotheses objectively as well as developing findings that would be applicable to the entire SME population in Mukono Municipality was facilitated (Fischer et al., 2023).

3.2 Study Area and Population

The study was carried out in the Kauga village, Mukono Municipality, Mukono District, Central Uganda. It was selected since SMEs operating in this district have been experiencing huge challenges in terms of being operationally effective, particularly in areas such as cost control, quality of service, process performance, and business sustainability. The population, according to Trochim (2006), is the group from which a researcher wishes to draw a sample in order to draw generalizations. According to Mukono Municipal Council (MMC) records (2025), there are approximately 100 registered SMEs dealing in different businesses operating in Kauga village, Mukono Municipality and these were included in the study as the target population.

3.3 Sample Size Determination

According to Katamba & Nsubuga (2014) sample size is the portion or subset of the total population. The sample size was determined by the sample calculation formula by Taro Yamane's (1970) formula as follows;

$$n = \frac{N}{1 + N(e)^2}$$

“n” is sample size, “N” is population, “e” is error (0.05) or level of confidence 95%

“N” (population) = 100 registered SMEs operating in Kauga, Mukono Municipality

$$n = \frac{100}{1 + 100(0.05)^2}$$

$$n = \frac{100}{1 + 100(0.0025)}$$

$$n = \frac{100}{1 + (0.25)}$$

$$n = \frac{100}{1.25}$$

n = 80 registered SMEs operating in Kauga, Mukono Municipality

Therefore from the sample size calculation above, the sample size were 80 registered SMEs operating in Kauga, Mukono Municipality.

3.4 Sampling Techniques and Procedure

The researcher used simple random sampling to select the participants for the study. This method was applied by obtaining a list of the registered SMEs in Kauga, Mukono Municipality from Mukono Municipal Council records. A random selection process was then used to choose a representative sample of these SMEs, where each business, represented by either the owner or the manager, had an equal chance of being selected. Simple random sampling was appropriate in this case because it ensures unbiased selection, giving all registered SMEs in Kauga, Mukono Municipality an equal opportunity to participate in the study, which enhances the generalizability of the findings.

3.5 Data Collection Method

3.5.1 Questionnaires

A questionnaire, according to Katamba and Nsubuga (2014), is a typed list of queries that are utilized in gathering information from respondents. Closed-ended questions were used in this study in order to gather data from owners/managers of the selected SMEs in Kauga, Mukono Municipality. Closed-ended questions provided several choices for standardized answers to ensure ease of analysis when comparing data. The investigator guided respondents as necessary to determine respondents' clarity and specificity of response, especially regarding SMEs' financial management practices and financial performance (Ikart, 2019).

3.6 Data Collection Tool

3.6.1 Questionnaire guide

A guided questionnaire instrument was used as the main tool for gathering quantitative data from owners/managers of the sampled SMEs in Kauga, Mukono Municipality. The tool was suitable for obtaining access to a reasonable substantial number of the respondents within a specified time frame. The questionnaire had mainly close-ended questions established to the study goals, which addressed the financial management practices and performance of SMEs in monetary

terms. Respondents were asked to specify the best choice that reflects their experience or perception. The questionnaires were measured on a Likert scale of 5 (Strongly Agree), 4 (Agree), 3 (Not sure), 2 (Disagree) and 1 (Strongly Disagree).

3.7 Validity and Reliability of Data Collection Instruments

3.7.1 Validity

Validity was ascertained to ascertain if the questions can capture the desired information or not (Sürücü & Maslakçı, 2020). Research experts pilot-tested the questions to assess the ability of the questions to record the desired feedback. A Content Validity Index (CVI) was computed to ascertain the validity of the research tool. The researcher used the following formula to identify the validity of the research tools.

$$\text{Content validity Index (CVI)} = \frac{\text{Relevant items by all judges as suitable}}{\text{Total number of items judged.}}$$

The CVI was 0.91 that was above the threshold value of 0.70 (Duckett, 2021), thereby suggesting that the questionnaire could be used to collect data reliably.

3.7.2 Reliability

Reliability in research entails consistency, stability, and dependability of research results, reflective of the degree to which a study's results can be replicated or reproduced under equivalent conditions or through other researchers. The reliability of the questionnaire was tested using Cronbach's coefficient alpha (Mellinger & Hanson, 2020). A pilot with 10 participants was conducted, and reliability testing was performed using the Statistical Package for the Social Sciences (SPSS). A formula was used to calculate the Cronbach's coefficient alpha. The coefficient was 0.93 that exceeded the recommended .70 (Duckett, 2021), thereby indicating that the questionnaire was appropriate for data collection.

3.8 Procedure of Data Collection

The researcher was issued with an introductory letter by Uganda Christian University's School of Business after successfully defending the research proposal. The letter was used to go to the owners of the selected SMEs in Kauga, Mukono Municipality, in a bid to formally request them

to allow the conduct of the study. After approval, the researcher distributed structured questionnaires to the owners of the selected SMEs. Collecting data only began after having received informed consent of all participants, guarantee of confidentiality, ethical standards fulfilled, and voluntary nature being ensured throughout.

3.9 Data Analysis

3.9.1 Quantitative data analysis

Quantitative data collected through structured questionnaires was analyzed using SPSS version 20. At the univariate level, descriptive statistics such as frequencies, percentages, and means were generated to summarize the characteristics of respondents and responses. These results were presented using tables and bar charts for ease of interpretation (Jopling, 2019). At the bivariate level, the relationship between financial management practices and financial performance of SMEs were examined using Pearson's correlation coefficient to determine the strength and direction of the relationship. The level of statistical significance was set at 95% confidence interval ($p\text{-value} < 0.05$) (Skinner, 2020).

3.10 Ethical Consideration

According to Nsubuga & Katamba (2013) ethical issues include setting clearances from the ethical body and consent of the respondent. It refers to the moral justification of the investigation or intervention; as regards the minimal about disregard, safety and psychological wellbeing of the person and or community (Pietilä et al., 2020). The researcher exhibited a high level of ethical behaviour in the course of implementing the study; confidentiality where the information got from the field was only used for academic purposes. There was also anonymity of the respondents exhibited so that they could get the freedom to express themselves. More so, informed consent was obtained from all respondents before including them in the study.

3.11 Limitations and Delimitation

The research instruments were standardized. Therefore a validity and reliability test was done to produce a credible measurement of the research variables.

Additionally, getting the surveys filled out consistently was a big challenge because the research assistants brought about inconsistency in the mode of helping. Each and everyone had a way of doing their own things from how they explained the questions putting into consideration time management. To minimize this threat, the research assistants in a meeting were briefed and oriented making sure the procedures to be done in data collection were easily understood.

Finally, not all questionnaires were returned. Neither were they completely answered nor even retrieved back due to circumstances where some people got sick, traveled, hospitalized and simply others decided they didn't want to participate. In anticipation to this, more respondents were reached out to by exceeding the minimum sample size. The respondents were reminded not to leave any item in the questionnaire unanswered and were closely followed up as to the date of retrieval.

CHAPTER FOUR

DATA PRESENTATION AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents and discusses the results of the analysis that has been done to look at the specific objectives of the study and in relation to the reviewed literature. The study was carried out using questionnaires with owners or managers of selected SMEs in Kauga, Mukono Municipality. The findings are presented with the help of tables for purposes of clarity and interpretation.

4.1 Response Rate

Table 1: Response rate for questionnaires

Response Rate	Frequency	Percentage
Response	80	100%
Non Response	00	00%
Total	80	100%

Source: *Primary data*

According to table 1 above, a total of 80 (100%) respondents who are owners or managers of the selected SMEs in Kauga, Mukono Municipality were expected to be involved in the study and all the respondents gave their response giving a response rate of 100%. The reason for the high response rate was due to the fact that the researcher had enough time to collect the data herself given that the number of respondents required was relatively small.

4.2 Findings on Demographic Characteristics of Respondents

This section presents the general background information about the respondents in relation to their gender, age, level of education, category of business and period spent operating the business as shown in the table below.

4.2.1 Gender of the respondents

The table below summarizes the gender of the respondents that are SME owners or managers in Kauga and the data in the table was interpreted below.

Table 2: Gender

	Frequency	Percent	Cumulative Percent
Male	45	56.3	56.3
Female	35	43.7	100.0
Total	80	100.0	

Source: *Primary data*

Findings in the table 2 above show the majority of respondents represented by 56.2% are male while female constituted the minority 43.8% of the total respondents. Therefore there were more males involved in the study compared to their female counterparts. However the inclusion of both male and female in the survey was to get a different view from the respondents about the topic under study.

4.2.2 Age of the respondents

The table below summarizes the gender of the respondents that are SME owners or managers in Kauga and the data in the table is interpreted below.

Table 3: Age

	Frequency	Percent	Cumulative Percent
21-30 years	24	30.0	30.0
31-40 years	33	41.3	71.3
41-50 years	15	18.7	90.0
Above 50 years	8	10.0	100.0
Total	80	100.0	

Source: *Primary data*

Finding in the table 3 above show that the vast of majority of the respondents fell between the age group of 31-40 years represented by 41.3% followed by the respondents who fell between the age group of 21-30 years represented by 30% then those between 41-50 years represented by 18.7% and lastly 10% for the respondents that were above 50 years. This therefore implies that there was no age discrimination since information was gotten from people with different age groups.

4.2.3 Education level of the respondents

The table below summarizes the education level of the responds that are SME owners or managers in Kauga and the data in the table was interpreted below.

Table 4: Level of education

	Frequency	Percent	Cumulative Percent
Primary	15	18.7	18.7
Secondary	25	31.3	50.0
Tertiary	30	37.5	87.5
Others	10	12.5	100.0
Total	80	100.0	

Source: *Primary data*

Findings in the table 4 above revealed that majority of respondents represented by 37.5% have atleast attained tertiary level of education followed by 31.3% who have atleast attained secondary level of education then 18.7% who have atleast attained primary level of education whereas 12.5% have no education background. It can therefore be noted that most of the respondents were able to read and understand the questionnaire with ease although the questionnaire interpretation was done for those with no education background.

4.2.4 Category of business respondents operate in

The table below summarizes the category of business the responds that are SME owners or managers in Kauga operate in and the data in the table was interpreted below.

Table 5: Category of business

	Frequency	Percent	Cumulative Percent
Segmented business	34	42.5	42.5
Assorted merchandise	46	57.5	100.0
Total	80	100.0	

Source: *Primary data*

Findings in the table 5 above revealed that majority of respondents represented by 57.5% operate segmented businesses like saloons, printing bureaus, boutiques and repair maintenance businesses among others, whereas 42.5% operate businesses that fall under assorted merchandise like retail and wholesale shops.

4.2.5 Period spent operating the business

The table below summarizes the period the owners or managers of SMEs in Kauga have spent operating their businesses and the data in the table was interpreted as shown below.

Table 6: Period spent operating the business

	Frequency	Percent	Cumulative Percent
1-5 years	26	32.5	32.5
6-10 years	39	48.7	81.2
Above 10 years	15	18.8	100.0
Total	80	100.0	

Source: *Primary data*

Findings from table 7 above show that majority of respondents 48.7% have spent 6-10 years operating their respective businesses followed by 32.5% who have been operating their respective businesses for a period of 1-5 years, where those who have spent more than 10 years operating their respective businesses constituted the minority represented by 18.8%. The findings imply that the respondents have the necessary information about the topic under study since majority of them have spent reasonable time operating different businesses in Kauga, Mukono Municipality.

4.3 The Relationship between Budgeting Practices and Financial Performance of SMEs in Mukono Municipality

Table 7 summarizes respondents' responses the relationship between budgeting practices and financial performance of SMEs in Mukono Municipality by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

Table 7: The relationship between budgeting practices and financial performance of SMEs in Mukono Municipality

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SD
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
My business prepares a budget before the start of each financial period	42 52.5%	24 30.0%	00	10 12.5%	4 5.0%
Budgeting helps my business to control expenses effectively	23 28.8%	35 43.7%	6 7.5%	11 13.7%	5 6.3%
I regularly compare actual financial performance with the budget	19 23.7%	38 47.5%	7 8.8%	15 18.7%	1 1.3%
Budgeting improves planning and decision-making in my business	23 28.8%	35 43.7%	10 12.5%	12 15.0%	00
Budgets are strictly followed during business operations	24 30.0%	40 50.0%	00	16 20.0%	00
Budgeting has helped my business to achieve its financial goals	18 22.5%	50 62.5%	4 5.0%	8 10.0%	00

Source: *Primary data*

According to the study in Table 7, 82.5% of the respondents agreed that their businesses plan a budget before the commencement of each financial period, while 17.5% did not agree with the assertion. It shows that the majority of SMEs in Mukono Municipality perceive budgeting as a prominent practice in managing their business. The implication is that SMEs recognize the

significance of anticipatory financial planning, which optimizes utilization of resources as well as minimizes financial uncertainty.

The study also validated that 85.0% of the respondents agreed that budgeting has helped their firms achieve financial targets, whereas 10.0% disagreed and 5.0% were not certain about the statement. This again indicates that budgeting is significantly regarded as a driver of financial success by SMEs. The implication is that excellent budgeting enables firms to possess realistic targets and be capable of re-directing their assets towards profitability and sustainability.

Furthermore, the research revealed that 80.0% of the respondents agreed that budgets are followed in carrying out business activities, whereas 20.0% disagreed with the statement. This reflects that a majority of SMEs exercise financial restraint in their operations through the following of budgets. The implication is that sticking to set budgets enables SMEs to avoid unnecessary expenditure and attain greater financial stability.

More so, the findings validated that 72.5% of the participants agreed that budgeting improves planning and decision-making in their companies, whereas 15.0% disagreed, and 12.5% were not sure. This signifies that budgeting is regarded as a major tool in the optimization of managerial efficiency. The implication is that SMEs that prioritize budgeting experience well-made decisions that yield financial growth and competitiveness.

In addition, the study found that 72.5% of the sample agreed with the fact that budgeting helps their companies control expenses effectively, whereas 20.0% disagreed and 7.5% were unaware. This illustrates that budgeting plays a role in cost control for SMEs. The conclusion is that when SMEs adherently use budgeting, wastage can be avoided, full use of resources can be achieved, and profitability can be improved.

Lastly, the findings suggested that 71.2% of the respondents agreed they consistently compare actual performance with the budget, whereas 20.0% disagreed, and 8.8% were indifferent to the statement. This means the majority of SMEs engage in financial performance comparison with planned targets. The implication is that they induce accountability, improve performance monitoring, and allow companies to correct and alter wherever deviations are noted.

Overall, the findings indicate that the majority of SMEs in Mukono Municipality value budgeting as an important financial management practice that significantly contributes to financial performance. Most respondents agreed with all the statements, particularly on the contribution of budgeting to attaining financial objectives, controlling spending, and enhancing decision-making. The findings suggest that SMEs with formal budgeting practices are more likely to achieve financial growth, sustainability, and stability. This places urgency on the continuous activities of budgeting as a stepping stone towards improved financial performance for SMEs. The findings of the study concerning the relationship between budgeting practices and financial performance of SMEs in Mukono Municipality were further determined using Pearson’s correlation that was conducted as shown below;

Table 8: Pearson’s correlation on budgeting practices and financial performance of SMEs
Correlations

		Budgeting practices	Financial performance of SMEs
Budgeting practices	Pearson Correlation	1	.875**
	Sig. (2-tailed)		.000
	N	80	80
Financial performance of SMEs	Pearson Correlation	.875**	1
	Sig. (2-tailed)	.000	
	N	80	80

** . Correlation is significant at the 0.05 level (2-tailed).

Source: *Primary data*

The findings indicated in the table above shows that there is a significant positive relationship between budgeting practices and financial performance of SMEs in Mukono Municipality. This relationship is affirmed by “r” values of 0.875 with significant “p” values of 0.0000 at the level of 0.05 (2-tailed) ($r = .875^{**}, p < .05$). This implies that effective budgeting practices greatly enhance the financial performance of SMEs in Mukono Municipality. This strong positive relationship suggests that SMEs that plan, allocate, and monitor their financial resources through proper budgeting are more likely to achieve stability, growth, and profitability. Therefore, strengthening budgeting practices is crucial for the sustainability and competitiveness of SMEs.

4.4 The Relationship between Working Capital Management and Financial Performance of SMEs in Mukono Municipality

Table 9 summarizes respondents' responses on the relationship between working capital management and financial performance of SMEs in Mukono Municipality by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not sure), D (Disagree) and SD (Strongly Disagree).

Table 9: The relationship between working capital management and financial performance of SMEs in Mukono Municipality

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SD
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
My business efficiently manages cash inflows and outflows	20 25.0%	58 72.5%	00	2 2.5%	00
Inventory levels are well controlled to avoid shortages or overstocking	14 17.5%	63 78.8%	00	3 3.8%	00
My business ensures timely collection of debts from customers	22 27.5%	54 67.5%	2 2.5%	2 2.5%	00
Suppliers are paid promptly to maintain good relationships	19 23.8%	57 71.3%	00	4 5.0%	00
Working capital is adequate to sustain daily business operations	21 26.3%	34 42.5%	00	20 25.0%	5 6.3%
Proper working capital management has improved my business performance	23 28.8%	51 63.7%	4 5.0%	2 2.5%	00

Source: *Primary data*

According to the study in Table 9, 97.5% of the respondents agreed that cash inflows and outflows are managed by their companies efficiently, whereas 2.5% disagreed with the statement. It shows that almost all SMEs in Mukono Municipality focus on managing cash flows in a proper way. The conclusion is that proper management of cash flow forms an important

element in offering liquidity, avoiding financial distress, and ensuring smooth operations of business.

The findings also revealed that 96.3% of the respondents agreed that their businesses control inventory levels to avoid shortages or surplus stock, whereas 3.8% disagreed. It thus means that SMEs know they need to control inventories when it comes to keeping operations running and avoiding wastage. The implication is that successful management of inventories ensures that SMEs attain supply-demand equilibrium, ensuring customer satisfaction while saving on the costs of holding surplus stock.

Furthermore, the results showed that 95.0% of the respondents agreed that their firms enable timely collection of debts from clients while 5.0% disagreed or were uncertain about the statement. This shows that most SMEs in the Mukono Municipality put focus on management of accounts receivable in working capital practices. The implication is that effective debt collection enables firms to maintain steady cash flow, reduce exposure to bad debts, and improve financial performance.

More so, the outcome agreed that 95.1% of the respondents agreed that suppliers are paid in time to have good relationships, while 5.0% did not agree with the above statement. This shows that most SMEs value good supplier relations by paying suppliers in time. The implication is that trusting practices on their part build strong belief and loyalty from the suppliers and ensure a continuous supply of goods and services, thereby improving business continuity and stability.

In addition, the findings indicated that 92.5% of the respondents to the survey agreed that efficient management of working capital has improved their business performance, while 7.5% disagreed or did not know about the assertion. This confirms that most SMEs perceive a clear link between working capital practices and improved financial performance. The conclusion is that working capital management enhances profitability, efficiency, and viability for SMEs in the long term.

Lastly, the study established that 68.8% of the respondents agreed that their working capital is adequate enough to undertake day-to-day operations and 31.3% disagreed with the same proposition. This shows that although the majority have adequate working capital, a high percentage of SMEs fail to meet day-to-day operating needs. The implication is that there are

certain SMEs that continue to have liquidity problems, which can impact negatively on their ability to pay short-term liabilities and sustain operations smoothly.

Overall, the study finds that working capital management is inextricably linked with financial performance of SMEs in Mukono Municipality. The majority of respondents agreed on all the statements, particularly effective cash management, control over inventory, collection of debts, and handling of the relationship with suppliers, which are frequently done and found to be believed as contributing to financial success. This means that while the majority of SMEs apply sound working capital practices, there is nonetheless a call to improve financial strength to underpin sustainable growth and robustness to flourish under the competitive business environment. The findings of the study concerning the relationship between working capital management and financial performance of SMEs in Mukono Municipality were further determined using Pearson’s correlation that was conducted as shown below;

Table 10: Pearson’s correlation on working capital management and financial performance of SMEs

Correlations

		Working capital management	Financial performance of SMEs
Working capital management	Pearson Correlation	1	.883**
	Sig. (2-tailed)		.000
	N	80	80
Financial performance of SMEs	Pearson Correlation	.883**	1
	Sig. (2-tailed)	.000	
	N	80	80

** . Correlation is significant at the 0.05 level (2-tailed).

Source: *Primary data*

The findings in the table above shows that there is a significant positive relationship between working capital management and financial performance of SMEs in Mukono Municipality. This relationship is affirmed by “r” values of 0.883 with significant “p” values of 0.000 at the level of 0.05 (2-tailed) ($r = .883^{**}, p < .05$). This implies that effective working capital management significantly enhances the financial performance of SMEs in Mukono Municipality, meaning that SMEs that carefully manage their current assets and liabilities are more likely to achieve stability, profitability, and sustainable growth.

4.5 The Relationship between Financial Record Keeping and Financial Performance of SMEs in Mukono Municipality

Table 11 summarizes respondents' responses on the relationship between financial record keeping and financial performance of SMEs in Mukono Municipality by using a Likert scale where SA (Strongly Agree), A (Agree), NS (Not Sure), D (Disagree) and SD (Strongly Disagree).

Table 11: The relationship between financial record keeping and financial performance of SMEs in Mukono Municipality

Statements	Extent of agreement and disagreement				
	SA	A	NS	D	SD
	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)	Freq. (%)
My business maintains accurate financial records of all transactions	19 23.8%	53 66.3%	00	7 8.8%	1 1.3%
Financial records are updated regularly and on time	21 26.3%	54 67.5%	00	4 5.0%	1 1.3%
Proper record keeping has improved accountability in my business	23 28.8%	51 63.7%	00	4 5.0%	2 2.5%
Financial records are used to guide business decision-making	20 25.0%	58 72.5%	00	2 2.5%	00
My business prepares financial statements based on recorded data	23 28.8%	35 43.7%	10 12.5%	12 15.0%	00
Record keeping has improved access to credit from financial institutions	24 30.0%	40 50.0%	00	16 20.0%	00

Source: *Primary data*

According to the findings in Table 11, 97.5% of the respondents agreed that financial records are used to guide business decisions, whereas only 2.5% disagreed. This is an indication that almost all SMEs in Mukono Municipality rely on financial records in making vital business decisions.

The implication is that effective application of financial records strengthens SMEs in making decisions, improve utilization of resources, and reduce risks of speculation in running businesses.

The findings further revealed that 93.8% of the respondents agreed that their records are updated in time and on a frequent basis, while 6.3% disagreed. It suggests that a majority of SMEs view the importance of timely updating of records in a bid to avoid improper monitoring of financial progress. The implication is that timely updating of accounts enhances accountability, compliance, and access to credible information for decision-making and financial reporting.

Moreover, findings indicated that 92.5% of the respondents agreed with the assertion that good record keeping has made them more accountable in their businesses, while 7.5% of the respondents disagreed. This suggests that most SMEs recognize financial record keeping as a vital discipline that promotes transparency and accountability in financial management. The inference is that good record keeping reduces the likelihood of mismanagement and abuse of resources and thus enhances stakeholders' confidence in business.

To a larger degree, the findings validated that 90.1% of the respondents agreed that their businesses maintain accurate financial records of transactions, while 10.1% did not agree. This indicates that the majority of SMEs place a great value on accuracy in recording transactions. The inference here is that good record keeping strengthens internal control systems, prevents errors, and provides a good basis of reference in the case of audits and evaluation.

In addition, the findings validated that 80.0% of the participants agreed that the keeping of records has increased access to credit from financial institutions, while 20.0% did not agree. This means that despite the awareness of the majority of SMEs of the role of financial records in getting credit, a significant minority still face challenges in employing these records in accessing credit.

Lastly, the study established that 72.5% of the participants agreed that financial statements of their businesses were drawn from recorded data, 12.5% were not sure, and 15.0% disagreed. This indicates that while most SMEs prepare financial statements, a great number do not or prepare them infrequently. The inference is that even if financial records in fact exist, some SMEs may lack the technical acumen or the self-control to translate them into proper financial statements, which can hold them back from being able to attract investors or meet compliance obligations.

Generally, the research shows that financial record keeping has a positive association with the financial performance of SMEs in Mukono Municipality. Most respondents were of the opinion that financial records are true, updated on a consistent basis, and used extensively to inform business decisions, improve accountability, and enhance access to credit. This means that while the record keeping practice per se is well-grounded and valued, capacity building to ensure that there is potential for all SMEs to benefit most from the quality of financial record management to improve performance and sustainability still remains. The findings of the study concerning the relationship between financial record keeping and financial performance of SMEs in Mukono Municipality were further determined using Pearson’s correlation that was conducted as shown below;

Table 12: Pearson’s correlation on financial record keeping and financial performance of SMEs

Correlations

		Financial record keeping	Financial performance of SMEs
Financial record keeping	Pearson Correlation	1	.879**
	Sig. (2-tailed)		.000
	N	80	80
Financial performance of SMEs	Pearson Correlation	.879**	1
	Sig. (2-tailed)	.000	
	N	80	80

** . Correlation is significant at the 0.05 level (2-tailed).

Source: *Primary data*

The findings indicated in the table above show that there is a significant positive relationship between financial record keeping and financial performance of SMEs in Mukono Municipality. This relationship is affirmed by “r” values of 0.879 with significant “p” values of 0.00 at the level of 0.05 (2-tailed) ($r = .879^{**}$, $p < .05$). This implies that proper financial record keeping significantly improves the financial performance of SMEs in Mukono Municipality, indicating that accurate and consistent documentation of financial transactions enhances decision-making, accountability, and overall business sustainability.

CHAPTER FIVE

DISCUSSION, SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter includes the discussion of findings in relation to the literature. It summarizes all the findings reported in the chapter four according to questions of the study, draws conclusions, suggests recommendations and also proposes some areas for further study.

5.1 Discussion of Findings

5.1.1 Relationship between budgeting practices and financial performance of SMEs in Mukono Municipality

The research findings indicated that budgeting practices significantly affect the financial performance of SMEs in Mukono Municipality. A majority of the respondents demonstrated that the preparation of budgets before financial periods, their follow-up during operations, and comparing actual performance with intended budgets are crucial in effective planning, expense controlling, and financial goal attainment. The findings align with the contributions of Ainembabazi (2022) and Sunday et al. (2022), who argued that SMEs with formal budgeting behavior are likely to maximize resource utilization, mitigate financial risk, and achieve operational efficiency. The findings reveal the importance of formal budgeting as a strategic finance management practice with explicit implications for SME profitability and stability.

The study also confirmed that budgeting improves planning and decision-making, enhances accountability, and allows SMEs to achieve financial objectives. This complements the research of Okeke et al. (2024) and Gyamera et al. (2023), who noted that strategic budgeting streamlines managerial decision-making through the availability of benchmarks for monitoring expenses and financial performance, thus allowing firms to capture gaps and spaces for growth. The implication is that SMEs with good budgeting systems in place can respond appropriately to financial adversity, encourage disciplined spending, and generate sustainable growth, which supports the broader argument that budgeting is a vital ingredient for long-term business success.

Moreover, the high and positive correlation ($r = .875^{**}$, $p < .05$) developed between budgeting practices and financial performance confirms that successful budgeting is a key driving force for SME growth and profitability. This is consistent with Kataike et al. (2024) and Basiru et al. (2023), who established that budgeting practice-oriented SMEs provide better financial performance and business sustainability. This means that SMEs in Mukono Municipality, just like in other emerging markets, have much to benefit from embracing budgeting in their financial management programs, and there exists a good reason why budgeting practices should be adopted and simplified further for competitiveness, sustainability, and financial stability reasons.

5.1.2 Relationship between working capital management and financial performance of SMEs in Mukono Municipality

The study findings presented that effective management of the working capital significantly enhances SMEs' financial performance in Mukono Municipality. Most of the respondents indicated that effective management of inflows and outflows of cash, prompt settlement of the debts, inventory management, and timely payment to the suppliers result in smooth operation as well as a good relationship with the suppliers. Conclusion is concordant with Mang'ana et al. (2023) research, where they observed that SMEs with proper working capital management of current liabilities and assets attain more efficient liquidity, operation, and continuity in the business. This means that regulated working capital procedures are crucial in an attempt to sustain business operations smoothly and reduce financial risk in SMEs.

The study also reported that effective working capital management increases business performance in the form of increased profitability, effectiveness, and long-term viability despite being some of the SMEs that face challenges with inadequate working capital for running everyday business. This is empowered by Tharmini & Lakshan (2021) literature, which emphasized that well-managed SMEs' working capitals are better positioned to meet short-term obligations, optimize cash flows, and achieve financial stability in large quantities. This is in line with the necessity to build training and capacity building within working capital management to render all SMEs operationally strong and growing.

Moreover, the high positive correlation ($r = .883^{**}$, $p < .05$) between working capital management and financial performance is a confirmation of the significant influence of such

practices on SME performance. The findings conform to the works of Zayed et al. (2022) and Nkwinika & Akinola (2023), who emphasized that firms that keep a tight control over their inventories, payables, and receivables are likely to achieve financial growth and sustainability. This would imply that SMEs in Mukono Municipality, as in the case of SMEs in other emerging markets, are able to maximize their profitability and stability through effective management of existing assets and liabilities, justifying the strategic value of working capital to attain financial performance.

5.1.3 Relationship between financial record keeping and financial performance of SMEs in Mukono Municipality

The study established that the SMEs in Mukono Municipality maintain appropriate and up-to-date financial records, and they utilize them in informing business decisions. The conclusion agrees with literature by Al-Hashimy et al. (2022), who explained that appropriate record keeping allows for efficient financial decisions, effective utilization of resources, and minimizing errors that impact performance. This integration implies that systematic financial record keeping is important to facilitate well-informed management decision making and effective operations in SMEs.

The study also demonstrated that effective financial record keeping enhances accountability, transparency, and access to credit by SMEs. The results validate literature by Msomi & Olarewaju (2021), which indicated that the SMEs that establish solid record-keeping habits are more responsible and have good relations with the financial institutions, thereby becoming more creditworthiness and financial sustainability. This is also reflected that the good role of financial books in trust and governance is not only with internal management but also with external finance relationships, the most important aspect of SME development.

Finally, the study affirmed that keeping financial books implies more preparation of financial statements, although there are some SMEs which lag behind in this practice. The evidence is in agreement with research by Zada et al. (2021) and Yakob et al. (2021), who have noted that accurate recording of financial transactions provides the foundation for the preparation of true financial statements, facilitating investor confidence, compliance, and sustainability. This confirms that though record keeping is valued, capacity building and technical skills

development are needed to empower all SMEs to use financial records to their fullest extent for performance improvement and achievement of strategic business objectives.

5.2 Summary of Findings

The findings revealed that budgeting practices play a crucial role in optimizing the financial performance of SMEs in Mukono Municipality. Most respondents agreed that preparation of budgets prior to financial periods, following budgets while running operations, and variance analysis of actual performance versus planned budgets are critical practices that drive planning, decision-making, cost control, accountability, and attainment of financial targets. The results further affirm that SMEs cite budgeting as a key method of resource maximization, elimination of financial uncertainty, and encouragement of financial stability. This is corroborated by the Pearson's correlation results, which establish strong positive and significant correlation ($r = .875^{**}$, $p < .05$) between budgeting practices and financial performance, indicating that effective budgeting has a central function to play in the expansion, sustainability, and profitability of SMEs.

Furthermore, the study revealed that effective working capital management considerably enhances the financial performance of SMEs in Mukono Municipality. Most respondents were in agreement that their firms efficiently manage cash flows in and out, hold inventory to avoid a shortage or surplus, recover debts in a timely manner, and settle the suppliers promptly, all of which ensure smooth operations, good supplier relationships, and regular cash flow. Respondents also confirmed that productive working capital practices improve business performance by means of higher profitability, effectiveness, and long-term viability, although some SMEs still face challenges with inadequate working capital for everyday operations. This was also evidenced by Pearson's correlation results, where there was a strong positive and significant correlation ($r = .883^{**}$, $p < .05$) between effective current assets and liabilities management and stability, growth, and sustainability.

Lastly, the study aimed to establish whether there is a considerable positive impact of record keeping on the financial performance of SMEs within the Mukono Municipality. Most of the respondents agreed that their businesses maintain accurate and up-to-date records on a regular basis, use them in making decisions, and find them essential in ensuring transparency, access to

credit, and accountability. Accurate record keeping was also linked with enhanced preparation of financial statements, but a few of the SMEs were not yet adopting it. Overall, the results, as supported by a high positive correlation ($r = .879^{**}$, $p < .05$), substantiate that accurate financial record keeping enhances the decision-making, accountability, creditworthiness, and long-term viability of SMEs.

5.3 Conclusions

The study concludes that budgeting, management of working capital, and maintenance of financial records are essential elements to the financial performance of SMEs in Mukono Municipality, the research concludes. Effective budgeting that includes preparation, conformity, and contrast with performance improves planning, decision-making, cost control, accountability, and finance stability, supported by a strong positive correlation ($r = .875^{**}$, $p < .05$).

Similarly, the study concludes that effective working capital management with efficient cash flow management, inventory management, debt collection, and timely payment to suppliers enables smooth operations, healthy relations with the suppliers, regular cash flow, and higher profitability, efficiency, and long-run sustainability with a highly significant and strong positive correlation ($r = .883^{**}$, $p < .05$).

Lastly, the study concludes that possessing good financial records that are timely and reliable, using them for decision-making, accountability, transparency, and credit accessibility, improves financial management, credit worthiness, and business sustainability, as shown through a positive correlation ($r = .879^{**}$, $p < .05$). Overall, findings of the current study reveal that SMEs with good financial management practices have higher possibilities of achieving stability, growth, profitability, and long-run resilience.

5.4 Recommendations

Based on the findings of the study, the following recommendations have been found necessary concerning the effect of financial management practices on the financial performance of small and medium enterprises (SMEs) in Mukono Municipality.

The study indicates the need for SMEs in Mukono Municipality to place high priority on good budgeting practices by preparing master budgets before financial periods, periodic checks on

compliance during operations, and planned versus actual budgets analysis. In this way, SMEs will be able to improve planning, controlling costs, making sound decisions, and achieving financial objectives, and thus provide financial stability and sustainability.

The study recommends that SMEs enhance working capital management by means of proper management of cash inflows and outflows, inventory management, collection of receivables in due time, and payment to suppliers in due time. This will support smooth business operation, good relationship with the suppliers, upkeep of liquidity, and ultimately profitability, efficiency, and long-term viability.

Moreover, the study proposes that SMEs maintain proper and up-to-date books of accounts that will ensure all transactions and business operations are recorded. Proper bookkeeping will enhance accountability, transparency, and sound decision-making, reduce fiscal mismanagement, and enhance access to credit from financial institutions, which will enhance business performance in general.

In addition, the study recommends that SMEs have to spend on training and capacity building of finance management staff in order to impart necessary knowledge and skills to the employees to enable budgeting, working capital management, and accounting for financial accounts. Trained human capital will be able to analyze accounting data properly, make authentic financial statements, and enable strategic business decisions that generate growth and sustainability.

Lastly, the study recommends the use of technological software and financial accounting, cash flow, and budgeting programs by SMEs for real-time monitoring of budgets, cash flows, and financial accounts. Use of computer software will eliminate errors, be more efficient, provide space for accurate reporting, and enable SMEs to adequately address financial challenges, hence better financial performance and competitiveness in the market.

5.5 Areas for Further Research

Since the present research attempted to examine the impact of financial management practices on SMEs' financial performance within Mukono Municipality, the research recommends that; Future study is recommended to examine the impacts of financial management practices on

SMEs' financial performance in other regions of Uganda in a bid to establish more generalizability and regional variation.

Additionally, further studies can examine how digital financial management instruments and technological adoption might contribute to the financial performance of SMEs, and how managerial capacity and financial literacy affect the effective use of budgeting, working capital management, and record-keeping procedures.

Finally, future research could also analyze moderating effects of exogenous factors such as market competition, regulatory climate, and access to finance on the relationship between financial management practices and SME performance. Longitudinal research is lastly suggested to assess the long-term sustainability and growth consequences of SMEs using broad-based financial management practices.

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5. How long have you been operating this business?

a) Less than 1 year b) 1-5 years

c) 6-10 years d) Above 10 years

Guide for Completing the Questionnaire:

Note: In the following sections, rate your degree of agreement on each statement under each objective using a scale of 5(Strongly Agree), 4(Agree), 3(Not sure), 2(Disagree) and 1(Strongly Disagree). Please answer questions by making a tick (√) on your preferred answer of choice.

Section B: Financial Management Practices

Statements		Responses				
s. no		5	4	3	2	1
Budgeting practices		5	4	3	2	1
1	My business prepares a budget before the start of each financial period.					
2	Budgeting helps my business to control expenses effectively.					
3	I regularly compare actual financial performance with the budget.					
4	Budgeting improves planning and decision-making in my business.					
5	Budgets are strictly followed during business operations.					
6	Budgeting has helped my business to achieve its financial goals.					
Working capital management		5	4	3	2	1
1	My business efficiently manages cash inflows and outflows.					
2	Inventory levels are well controlled to avoid shortages or overstocking.					
3	My business ensures timely collection of debts from customers.					
4	Suppliers are paid promptly to maintain good relationships.					
5	Working capital is adequate to sustain daily business operations.					
6	Proper working capital management has improved my business performance.					
Financial record keeping		5	4	3	2	1
1	My business maintains accurate financial records of all transactions.					
2	Financial records are updated regularly and on time.					

3	Proper record keeping has improved accountability in my business.					
4	Financial records are used to guide business decision-making.					
5	My business prepares financial statements based on recorded data.					
6	Record keeping has improved access to credit from financial institutions.					

Section C: Financial Performance of SMEs in Mukono Municipality

Statements		Responses				
s. no	Financial performance of SMEs	5	4	3	2	1
1	My business has been able to consistently generate profits.					
2	Sales revenue has been increasing over the past years.					
3	My business has sufficient liquidity to meet short-term obligations.					
4	Financial performance has improved due to better management practices.					
5	The business has experienced steady growth in assets and capital.					
6	Overall, I am satisfied with the financial performance of my business.					

Thank you very much for your cooperation